



3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
4400 EAST BROADWAY BOULEVARD • SUITE 200 • TUCSON, AZ 85711-3554 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778

Paul Matson
Director

MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS AND AUDIT COMMITTEE

**Tuesday, February 14, 2017
10:30 a.m., Arizona Time**

A quorum of the Operations and Audit Committee (OAC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012. Mr. Jeff Tyne, Chair, called the meeting to order at 10:30 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Jeff Tyne, Chair
Dr. Richard Jacob

One vacant position.

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the Minutes of the December 13, 2016 Public Meeting of the OAC

Motion: Dr. Richard Jacob moved to approve the minutes of the December 13, 2016, public meeting of the OAC as written. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Bernard Glick, Chief Internal Auditor, provided a summary of the Internal Audit Division (IAD) Quarterly Audit report to the Committee. Mr. Glick announced the IAD is down to two auditors to conduct employer audits with the retirement of an auditor in October. Due to the current hiring freeze, the position remains vacant. The current team has completed seven employer audits as of December 31, 2016. Five of the seven audits will most likely be presented at the April 11, 2017, OAC meeting. The internal auditor position remains vacant; however, a consultant was hired in November, 2016, to complete the Data Security Integrity audit which is also anticipated to be presented at the April 11, 2017, OAC meeting.

Mr. Glick further advised that at the end of December, 2016, an audit of foreign annuitants began. This audit is conducted every three years. The IAD has received responses to the initial request from 48 percent of the members. Mr. Glick indicated there are typically three letters sent out in order to obtain 100 percent of the responses.

Prior to moving to agenda item four, Ms. Melanie Alexander, Committee Administrator, requested the Committee move back to agenda item two as a typographical error was discovered in the December 13, 2016, OAC Public Meeting Minutes. Ms. Alexander directed the Committee to page two of the minutes, agenda item number four, and indicated the first line should read in part, "Mr. Anthony Guarino introduced...", rather than "introduce."

Motion: Mr. Jeff Tyne moved to approve the minutes of the December 13, 2016, public meeting of the OAC as amended. Dr. Richard Jacob seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

4. Presentation, Discussion, and Appropriate Action Regarding Enhanced Long Term Disability Review and Investigative Procedures

Mr. Paul Matson, Director, opened the discussion by stating the ASRS is in the process of refining the agency's due diligence from the fiscal perspective rather than just the customer service perspective with regard to Long Term Disability (LTD). After some research, the ASRS developed a proposed review and investigative procedure which Mr. Matson reviewed with the Committee.

Mr. Matson, Mr. Dave King, Assistant Director, Member Services Division, and Mr. Barry O'Dowd, Program Manager, Broadspire Services, Inc., responded to questions from the Committee.

In response to a question from Mr. Tyne, Mr. Matson indicated this process would be reviewed on a continuous basis, in order to update it in a timely manner when necessary. Mr. Matson indicated, upon finalizing the procedure, it should be ready to implement and he does not believe the finalized procedure needs to be brought to the full Board. Mr. Tyne agreed but asked that if Mr. Matson received negative feedback or disagreements regarding the proposed procedure, it be included in the monthly Director's Report. Mr. Matson agreed and advised that a copy of the final procedure would also be distributed to the OAC members.

5. Presentation, Discussion, and Appropriate Action Regarding ASRS Retiree Health Insurance Including:

- a. Goals**
- b. Cost Allocation and Pricing Methodology Options**
- c. Retrospective Rate Agreement and Distribution Methodology Options**

Mr. Matson introduced the topic and reviewed the following three components:

- a. Goals – The current goal commingles health insurance, LTD, and the supplemental defined contribution programs. Mr. Matson indicated the ASRS believes the health insurance programs should be measured separately and reviewed the following suggested changes from the current goals characteristics:
 - i. “Affordable” has been changed to “Cost Competitive” because the agency does not have control over the costs in the market place.
 - ii. Keep “Accessible” but clarify the definition as it pertains to the provider network.
 - iii. “Efficient” clarifies the definition as it pertains to such things as the initial enrollment and on-going navigation of the program once enrolled.
 - iv. “Strong Customer Service” pertains to members receiving strong customer service from the vendors and ASRS staff. It also pertains to ASRS staff receiving strong customer service from the vendors.
- b. Cost Allocation and Pricing Methodology Options – Mr. Matson reviewed all options considered. Mr. Matson also reviewed the factors utilized in determining the option for initial consideration as follows:
 - i. Mitigate premium differentials for programs with similar benefits.
 - ii. Limit the magnitude of cross subsidizations.
 - iii. Limit incentives that encourage premature retirements.
 - iv. Limit incentives for migration between plans.
 - v. Aggregate risk profiles.

Mr. Matson provided an overview of staff's recommendation, Option 2: Partial Application of ICU, to the Committee. Mr. Matson advised the Committee that the ASRS would implement the recommendation subject to the parameters identified on page three of the materials.

Mr. Matson, Mr. Dan Cadriel of UnitedHealthcare, Ms. Denise Jewell, Mercer Consultant, Mr. Dave King and Mr. Pat Klein, Assistant Director, External Affairs Division, responded to questions from the Committee.

- c. Retrospective Rate Agreement and Distribution Methodology Options – Mr. Matson reviewed the options considered and indicated staff's recommendation was Option #9, as staff felt it had the most net positive attributes and returns the funds directly to the retirees in a short amount of time.

Mr. Jeff Tyne and Dr. Richard Jacob agree with staff's recommendation, appreciate the thought that went into the decision and believe it is equitable. Mr. Matson advised the Committee some additional refinements will be made and then presented to the Board for approval.

6. Request for Future Agenda Items

None were requested.

7. Call to the Public

There were no members of the public in Phoenix requesting to speak. There were no members of the public in Tucson.

8. The next regular public OAC meeting is scheduled for Tuesday, April 11, 2017, at 10:30 a.m., at 3300 N. Central Avenue, in the 14th Floor Conference Room, Phoenix, Arizona.

9. Adjournment of the OAC

Motion: Dr. Richard Jacob moved to adjourn the meeting at 11:41 a.m. Mr. Jeff Tyne seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 0 excused, and 1 vacancy, the motion was approved.

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM